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Abstract

One of the most important forums for companies to disclose financial information to the market is the quarterly earnings call. Environmental, social and governance (ESG) issues are gaining increased traction among institutional investors but are yet to find a place in the earnings call. We launched the Action Lab project, which was a facilitated process of investor relations and sustainability functions working together to communicate ESG factors in the earnings call setting. Three publicly listed companies committed to work with us in the lead-up to the third quarter 2017 call, when they would include ESG dimensions in their presentations. Five major challenges emerged from our research. First, there is a chicken and egg situation in which companies do not convey ESG information because they think analysts are not interested, and analyst do not ask ESG-related questions because there is no ESG-related information for them to base questions on. Second, it is challenging to quantify ESG factors in ways that fit analysts' models. Third, the earnings call is a highly ritualized event and there is a reluctance to change the format. Fourth, there is a fear on the company side that ESG issues might be perceived as greenwashing, especially in times of weaker financial performance. Finally, ESG perspectives are typically too long-term to fit the focus of a short-term earnings call, and might therefore be better suited to other forums.

Keywords: earnings call, ESG, integrated communication

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Introduction

This paper describes an action-based research project that aimed to interact with a small set of publicly listed companies as they attempted to integrate performance of environmental, social and governance (ESG) issues into their quarterly earnings calls. The overarching goal of the project was to learn more about how capital market conversations might be changed to become more focused on a firm's ability to create value over the medium and long term.

Non-financial issues such as climate change, human rights, biodiversity or labour relations are increasingly being included in investment decisions. It is estimated that the total amount of assets under management that takes ESG into account grew by 34 percent globally between 2016 and 2018, amounting to a total of 31.8 trillion USD. In Europe, ESG assets correspond to nearly half of total assets under management (Global Sustainable Investment Alliance, 2018). Even large mainstream investors, such as Blackrock, State Street and Vanguard, now pride themselves on integrating ESG into financial analyses and decision making, as do some of the world's largest pension funds. This trend could have multiple explanations but is probably supported by a widely shared perception of the predictive power of ESG performance on financial returns (Eccles & Klimenko, 2019; Krueger, Sautner, & Starks, 2020). It is thus not a mere feel-good exercise, but one that, in the opinion of many investors, increases the prospects of enhanced long-term shareholder value.

As the financial market's interest in aspects of ESG performance has grown over time, companies have learned to communicate with investors on these topics. One of the prime outlets for providing ESG information to investors has been corporate sustainability reports and annual reports. There are continuing efforts to standardize such information to make it as useful as possible for investors (Davies, Dudek, & Wyatt, 2020). There are also efforts to integrate ESG into mainstream financial reporting, in what is referred to as integrated reporting (Busco, Frigo, Riccaboni, & Quattrone, 2013; Eccles & Krzus, 2010). There is mounting regulatory pressure on corporations to communicate ESG-related information to investors and other stakeholders. For example, the EU Non-Financial Reporting Directive has required publicly listed companies with at least 500 employees to report on the way they operate and handle environmental and social challenges since fiscal year 2017. In the US, the Securities and Exchange Commission has issued a number of provisions on non-financial reporting.

It seems, however, that ESG is not a prominent topic in one of the most important interfaces between corporations and investors: the quarterly earnings conference call (Eccles & Serafeim, 2013). The importance of the earnings call is exemplified in a survey of 365 Investor Relations Officers in the US, where it was rated the most important tool for conveying a company's message to institutional investors (Brown, Call, Clement, & Sharp, 2019). In this call, which is nowadays usually held either online or by telephone, but sometimes also physically, the Chief Executive Officer (CEO), Chief Finance Officer

(CFO) and other executives of publicly listed corporations present the earnings results of the past quarter to financial analysts and investors. There are no requirements for how long the call should be, but it typically lasts 45–60 minutes. Analysts will use the information from the call as input into their fundamental analyses of the company. The earnings results will typically be compared to the same period in the previous year, and management will often provide guidance on likely future financial results. There is generally a question-and-answer session at the end of the call where attendees ask questions. It is therefore a more dynamic forum for information exchange than a written report or press release. The transcripts of the call are sometimes made available on the corporate website, making it accessible to a wider audience. The call is preceded by the quarterly report, which is a summary of key financial and accounting data for the past three months.

The call is mainly attended by sell-side analysts, who are analyst that typically carry out research on a set number of companies in the same sector and sell this research to investors (the "buy-side"). Sell-side analysts will issue regular recommendations to buy, sell or hold the stock of the companies they research. One study shows that for Standard and Poor's 500 Index members in the period 2007–2016, at least one sell-side analyst appeared on 97.4 percent of the calls, while the corresponding average for buy-side analysts was 18 percent, with a steady decline following the financial crisis down to 11 percent in 2016 (Call, Sharp, & Shohfi, 2021).

Several studies have reported on the occurrence of ESG topics in the earnings call setting, and largely find that it is increasing but from low levels. A study by Goldman Sachs, which only measures how often at least *one* environmental or social keyword is included in an earnings call, reports that there was a 75 percent increase from the first quarter of 2010 to the fourth quarter of 2017. In the last quarter of 2017, almost half of the S&P 500 companies mentioned at least one such word (Bingham, Tylenda, Scott-Gall, Vilburn, & Wilson-Otto, 2018). The one-word approach in the study does not tell us much, however, about whether ESG is truly integrated in the call. A study by Fact Sheet shows that the term "ESG" was mentioned by only 6 percent of S&P 500 companies in the third quarter of 2019. This represents a 29% increase on the third quarter of 2016 (Butters, 2019). A study with a more encompassing methodology, drawing on neural language modelling, reports a general increase in the occurrence of ESG reporting in the calls for S&P 500 companies in 2013–2018 (Raman, Bang, & Nourbakhsh, 2020). During the five-year period, nearly 15 percent of the discussions in the calls pertained to ESG. The authors note that as energy prices fell to historic lows in the first quarter of 2016, companies in the Utilities, Industrial and Materials sector significantly reduced the time spent in the earnings call on ESG factors, indicating that ESG will be deprioritized in the call during times of other strong performance-related concerns.

One could posit that firms would be more likely to integrate ESG in the call if they have already adopted an Integrated Reporting framework for their annual reporting. Based on a sample of 70 companies across the world (but largely in Europe) that has issued at least one Integrated Report, a study found that a majority of the calls in the period 2011–2014 included sustainability items (Cavezzali, Hussain, & Rigoni, 2016). The study used a list of 108 sustainability keywords. Economic sustainability was discussed in 46 percent of the calls, environmental sustainability in 55 percent, and social dimensions in 76 percent of the calls. The authors caution, however, that the number of sustainability keywords spent in the calls was low. The majority were found in the presentations, and fewer in the Q&A section, indicating a lack of interest on the part of analysts—a topic that is returned to in the discussion below.

To the extent that ESG factors are relevant to analysts in their pursuit of accurate, up-to-date valuations, and to the extent that managers view ESG performance as critical to company risk, value creation and the forecasting of future earnings, it arguably makes sense to include ESG elements in the earnings call (Eccles & Serafeim, 2013; Eckerle, Tomlinson, & Whelan, 2020). Furthermore, if ESG factors are to be viewed as a strategic commitment, it can be argued that it merits the same attention in the earnings call as other strategic initiatives, such as major R&D programs, expansion into new markets or new product development efforts (Eccles & Serafeim, 2013). Finally, the trend for more integrated analysis on the investor side might lead to increasing demand for integrated communication in the capital market conversation more generally.

The Action Lab process

It appears that among the obstacles to ESG integration are the challenge of expressing sustainability in relevant financial terms, and the highly practical lack of interaction between the sustainability and investor relations functions (Eccles & Serafeim, 2013; Corporate Citizenship, 2016). It also seems that companies that already have an integrated approach to ESG reporting in other forums often include it in the earnings call (Cavezzali, Hussain, & Rigoni, 2016). We therefore conjectured that if we could facilitate a process whereby the sustainability and investor relations functions could jointly discuss how they might make the link between ESG and financial performance, and how they could present this in the call, they might be able to integrate these dimensions. In other words, a combined effort of research intervention and observation was warranted.

Action research is precisely the parallel process of inducing change and undertaking research, and linking these elements through critical reflection (Greenwood & Levin, 2007; Reason & Bradbury, 2008; Ellis & Kiely, 2010; Kemmis, 2010; Wittmayer & Schäpke, 2014). Stakeholders are involved as partners in a mutual learning process, and the knowledge development is collaborative. It is in other words research *with* stakeholders rather than just about them. Participants in action research studies accept responsibility for helping to resolve problems around a focus of inquiry. Action research in the sustainability field has for example been used to initiate and support new sustainability management practices among small and medium-sized enterprises (Hind, Smit, & Page, 2013) and to seek to influence organizational transformation towards sustainability in higher education institutions (Baker-Shelley, 2016; Cebrián, 2017).

The Action Lab project was inspired by an attempt to change the nature of the conversation in quarterly conference calls led by the Principles for Responsible Investment (PRI) and the UN Global Compact. In 2012, they announced a joint "ESG Investor Briefing Project" (Eccles & Serafeim, 2013). Companies were invited to hold an ESG Investor Briefing—a conference call with investors modelled after quarterly analyst calls but only focused on highlighting the link between ESG efforts in a company and its overall business strategy and shareholder value creation. The Briefing should not just present the general sustainable business strategy of the company, but discuss how the company's ESG strategies and performance translate into financial value, and prioritize the communication of company- and industry-specific ESG issues in terms of their relevance to investor communication. Participating companies included SAP, Enel, Eni, Pirelli, and Novo Nordisk. An analysis of SAP's ESG briefing call, however, showed that after this call was held, subsequent quarterly calls fell back into the traditional model (Eccles & Serafeim, 2013; UN Global Compact LEAD, 2013). It also showed that the audience for the ESG briefing call was different from the typical quarterly earnings call. Whereas the latter was largely attended by people from the sell-side, the former was almost completely made up of people from the buy-side. This experience formed the basis for designing the Action Lab project with a clear focus on ESG integration into the actual earnings call.

The objective of the Action Lab project was for the participating firms to include ESG in their third quarter (Q3) earnings calls in October 2017. In the spring of 2017, we reached out to 13 listed Swedish firms and invited them to join the project. Most of the firms were positive but, in the end, only three agreed to join. The difficulty in recruiting participants was in itself a signal to us that the idea of altering earnings call content was a sensitive issue for many companies. The three companies that joined the Action Lab were a construction and development company, a home appliance manufacturer, and a hygiene and health company (a recent split from a forest company). The companies were listed on Nasdaq Nordic, were large-cap multinationals, were headquartered in Stockholm and had received recognition for their ambitious sustainability work.

As participants in the Action Lab project, the three companies committed to make a change in their earnings call for the Q3 report and to integrate disclosure on ESG issues into their financial communications. How and to what extent this would be done was left to the company to decide.

Our mission was not just to engage with the participants in order to produce some element of change. We also wanted to understand what might facilitate or prevent the sought-after change. We therefore complemented the action-oriented elements with interviews. The companies committed to make key managers (IRO/CFO/Sustainability Officer and, if possible, CEO) available for interviews with the researchers before and after the earnings calls, as well as for an event where experiences would be shared among the participating companies. We also interviewed two sell-side and two buy-side analysts who followed one or more of the three companies.

The research process had six steps (see Figure 1), which are explained briefly in the remainder of this section.

Figure 1: The Action Lab process

Pre-call interviews with corporate representatives

Two months prior to the Q3 call, we conducted interviews with the company representatives. The purpose was to understand the (non)importance of sustainability and how sustainability was practiced in their company, to understand the relationship between the company and investors/analysts, to get access to the participants sensemaking/perceptions/vocabulary/arguments/examples/stories of earnings calls and of time horizon and ideas around short term/long term benefits in relation to sustainability and finance. Table 1 lists the job titles of the 16 company representatives who were interviewed.

Company A	Company B	Company C
CEO	CEO	CEO
CFO	SVP Sustainability	CFO
SVP Sustainability	SVP Investor Relations	SVP Sustainability
SVP Investor Relations	SVP Communications	SVP Investor Relations
Director Investor Relations		SVP Corporate Communications
Director Sustainability Reporting		Manager Financial Communication

Table 1: Interviewees pre-call

Each interview was conducted at the respective corporate headquarters and lasted for about 1 hour. The interviews were semi-structured in character, meaning that they could deviate from the interview guide, and new ideas could be brought up during the interview as a result of what the interviewee was saying (Galletta & Cross, 2013). In some cases, two people were interviewed jointly, leading to a total of 11 interviews. All the interviews were recorded and subsequently transcribed.

In advance of the pre-call interviews and the ensuing workshop, the contact persons at each company received background material curated by the Action Lab project manager in the form of a 27-page PowerPoint slide pack. The purpose was to get the participants' thought processes going, so that the interactions with them would be as constructive as possible. The information pack explained the rationale for the project. It contained examples of how material ESG issues can affect value drivers, examples of questions to ask a company in a certain sector in order to carry out an integrated analysis, and practical examples of and recommendations on ESG communication.

Workshop

Following the interviews with the corporate representatives, the project manager together with an expert in financial communication led a workshop for the participating companies. Representatives from the investor relations and sustainability departments came to the Stockholm School of Economics for a 2-hour workshop. There were nine participants in total, including heads of IR and heads of Sustainability. The aims of the workshop were to expand and challenge current practice on how to report ESG performance to financial analysts, and to serve as an inspiration for the upcoming work to change the Q3 earnings call. The workshop was structured around five questions.

- What is (should be) most important in the language of financial analysts? (Answer: size, timing, and cash flow risk)
- How are these three characteristics (size, timing and cash flow risk) related to value?
- How is this related to sustainability?
- Which material ESG issues that are relevant to your company would you communicate to financial analysts?

- How would you present this / What would be an example of how you can communicate material ESG issues using the language of financial analysts?

After the workshop, the firms had to decide for themselves how they wanted to communicate their Q3 results differently by integrating ESG.

Pre-interviews with analysts

To also get the analyst view, we conducted interviews with two buy-side and two sell-side analysts before the Q3 earnings call. These interviews were also semi-structured and each lasted approximately 1 hour. The interview guide was structured around three themes: work practice, integrating sustainability into financial analysis, and earnings calls.

The Q3 earnings call

At the end of October 2017, all three companies announced their Q3 results in an earnings call. As we shall see in the next section, however, not all of the firms ended up including ESG in the call.

Post-interviews

The post-interviews were focused on the corporate representatives to assess their experience of the (non)change in the Q3 earnings call. We developed a separate interview guide for these interviews. Those companies that did not include ESG in the call were not as willing to participate in a post-call interview, so the number of interviewees is smaller than for the pre-call interviews (see Table 2).

Company A	**Company B**	**Company C**
CEO	SVP Investor Relations	SVP Corporate Communications
CFO		
SVP Sustainability		
Director Investor Relations		

Table 2: Interviewees post-call

Sharing the Action Lab learnings

In May 2018, all the participating firms together with representatives from the Swedish financial and corporate sector were invited to a seminar at Stockholm School of Economics, hosted by the Action Lab project manager. The aim of the event was to spur a further conversation within the corporate and financial community. The results of the Action Lab project were communicated, and this was followed by a panel discussion about the challenges and opportunities of communicating sustainability performance in earnings calls. The members of the panel were a mix of representatives of the participating firms (albeit no CEO or CFO wanted to participate) and representatives from among institutional investors and academia who were invited to join. The seminar audience was encouraged to ask questions and partake in the discussion.

Findings and reflections

In the end, despite joint efforts to prepare content, not much was said about ESG in the 2017 Q3 earnings calls. In fact, only one of the three firms ended up fulfilling its commitment. At the beginning of the call, the CEO of Company A talked about innovations related to sustainability, and initiatives and recognition within the sustainability area. Two PowerPoint slides were shared, which contained the following items:

- *[Company] and Microsoft partner on the Internet of Things*
- *Recognition in European Parliament for recycling service for [product]*
- *[Company] and United Nations Foundations convene Global Dialogue on UN Sustainable Development Goals*
- *[Company] recognized by CDP as world leader for its action on forests and water.*
- *Innovations for people and nature: 13 innovations launched in all categories [slide showing some of the brands].*

The plan was also that the CFO would mention the financial consequences of some of the initiatives, such as on waste reduction and increased energy efficiency. Technical problems meant that the start of the call was delayed, however, and the resulting time constraints led the CFO to decide not to talk about this.

Company B had prepared including ESG factors in its earnings call and there were slides in the presentation about their progress on sustainability. On the morning of the call, however, there was a large negative reaction in the stock market to news of impairment losses. Just a half-hour before the start of the earnings call, the management team decided to cancel plans to talk about ESG performance. The prepared slides were hurriedly removed from the slide pack that had been placed on each seat for the physical meeting, as well as from the electronic version.

Company C did not make any preparations to include ESG issues in their earnings call. During the project, they found themselves without a permanent investor relations manager and did not want to introduce changes to their capital market conversation at such a time.

The results of the Action Lab were not what we expected. We did not anticipate how challenging the firms would find it to change their earnings calls. The findings from the Action Lab project presented below consequently largely revolve around the perceived challenges linked to communicating in an integrated way in an earnings call. Using NVivo coding on the interview material, five key themes emerge about what might hinder or facilitate the integration of ESG issues into the earnings call:

1. The “chicken and the egg situation”: no information and no questions
2. The challenge of getting ESG on to the Excel sheet
3. The earnings call as a ritualized event
4. Fear of greenwashing, especially in periods of weaker financial performance
5. The time horizon misfit

(1) <u>The chicken and egg situation: no information and no questions</u>

The interviews confirmed the chicken and egg problem described by Eccles and Serafeim (2013). The participating firms did not feel that analysts were interested in ESG performance and were therefore reluctant to bring it up in the earnings call. The analysts interviewed, for their part, felt that firms do not talk about ESG-related information to the extent that it prompts them to ask questions.

> *At the time of the earnings call, we never get any questions on that.* (CFO)

> *What is bouncing and what is in people’s minds, that is what you have to address. So of course, we are influenced by the frequency of the different questions in different areas.* (SVP, Investor Relations)

The one company that did talk about ESG in the Action Lab project setting did not get any follow-up questions in the Q&A, although they did get a few follow-up questions in a one-to-one setting afterwards.

In the interviews, there was also a perception among companies, buy-side analysts and sell-side analysts alike that sell-side analysts sometimes ask questions just to gain visibility, rather than because they really want to dig deeper into, for example, ESG issues. Sell-side analysts may want to show off to their clients, which is the buy-side, and to the company itself in order to improve or maintain their access to management. In fact, asking the first question has proved to have a positive impact on sell-side analysts’ career outcomes (Cen, Chen, Dasgupta, & Ragunathan, 2016; 2021).

> *…the Q&A session tends to be some sort of…like a marketing channel for [sell-side] analysts. ‘I need some air-time’, and then they pose the same questions over and over again, like that.* (Buy-side analyst)

Recent research indicates that buy-side analysts, in contrast to their sell-side peers, might be reluctant to ask questions of any sort during a call since they do not want to reveal their thinking. This may also give them a reason to wait with their questions, in the hope that they will have already been posed by a sell-side analyst (Call, Sharp, & Shohfi, 2021). Other research shows that even sell-side analysts could deliberately avoid asking questions (Brown, Call, Clement, & Sharp, 2015). According to one analyst in the study: "There are three things that can happen when you ask a question in an earnings conference call: one, you sound like a complete idiot; two, they give you no information at all; and, three, you get a really insightful answer except you've just shared it with all your competitors. So I don't ask questions on calls" (2015: 20).

One corporate representative noted that they use the road shows and one-to-one meetings as forums for educating analysts on what they could and should be asking about sustainability. One key inroad into expanding the discussion on ESG issues with sell-side analysts could also be to find a way to express them in financial terms that make sense to their models, as explained below.

(2) The challenge of getting ESG on to the Excel sheet

In order for sell-side analysts to make use of ESG information, they need to quantify it, since this format is the foundation for their analysis. As one sell-side interviewee put it, if you cannot quantify it, it will be difficult to know if it is relevant. Several corporate representatives in our study confirmed this, saying that the classic question from sell-side analysts when presented with new information is: "How do I get this into my Excel sheet?".

Firms might find it challenging to do the calculus on relevant ESG dimensions, and hence to communicate these externally. Interviewees also expressed concern that if you put a number on things, it opens it up for questions that you might not be able or want to answer.

> *And then the fear was: 'how can we quantify this? What will the impact be? Will we get questions on this?* (Director Investor Relations)

One interviewee noted that it can be difficult to disentangle sustainability from other financial effects:

> *Sustainability needs to be incorporated into everything we do. It's as simple as that. So, whenever we make investments or if we do innovation, if we do whatever we do, it has to be with the angle or through the lens of sustainability. If that's not the case, then eventually you end up in problems. Can you quantify the financial impact of that? No, of course you cannot. That's not possible.* (CFO)

One company interviewed was reluctant to communicate at least some ESG dimensions quarterly precisely because they wanted to avoid quantification. They felt that certain measures might vary a lot between quarters, and sometimes for non-relevant reasons, such as a temporary problem at a mill that affects energy consumption. Any variation typically catches the attention of analysts, but in some cases the quarterly fluctuation may not be relevant. For this reason, according to the respondent, some ESG information is better suited to annual reporting:

> *Because it [sustainability-related numbers] really goes up and down between the quarters, and they would always ask 'so is this now a new level? Is this the new percentage number we should be using?' And we always say 'No, no, it can shift between the quarters.'* (CEO)

(3) <u>The earnings call as a ritualized event</u>

The earnings call seems to be a highly ritualized and scripted event, in which all parties—companies, analysts and investors—have specific roles. It is a forum for companies to explain the numbers released in the quarterly report and "provide some more colour". Representatives from all the firms interviewed, however, felt that a successful earnings call is one where there are few surprises.

> *So, I guess maybe that ... a successful one is when there is not ... it's a boring one, maybe.* (SVP Corporate Communications)

> *It's more like a tick box kind of thing.* (SVP Investor Relations)

To change the format to something other than the traditional focus on the quarter, for example by putting the quarter in a medium- to long-term context or including non-financial dimensions, would take a lot of energy and even worry senior management. There is also a sense of being short of time, both because the call itself is not very long and because there will typically have been meetings with the press before the call. In such cases, the more they can lean on an established practice, the better.

> *It is media back-to-back in the morning, and then we must run down [to the meeting room], put a microphone on, and then launch the presentation. So, to start meddling with the format, that would create worries. They [CEO and CFO] need to feel comfortable, that they know exactly how everything is set up.* (SVP Investor Relations)

The company in the Action Lab that did make a change to their earnings call had long discussions on whether to do it and how it might look. One hesitation was that once they changed the format, they felt that they would have to stick with that change and talk about ESG issues in every quarter. This was also a concern raised by one of the companies that ended up not including ESG issues in its call. The concern with having to do it every quarter was largely that there might not always be something to say, and that it might be difficult to find the numbers every time (see above).

> *And that's of course something that we're worried about as well, and we have the discussions, okay, what slide should we … should we have this slide? Well, then people* [will] *want this every quarter, will we have something to say for the quarter? Will these four different bullets actually also mean that we have to give a number on the impact of the future of that?* (CFO)

The company that included ESG issues in the earnings call first titled the new PowerPoint slide "Strategic initiatives" but changed this because if the same heading did not appear in the next quarter, it might be thought that the company lacked any strategic initiatives.

(4) Fear of greenwashing, especially in periods of weaker financial performance

As mentioned above, one of the companies experienced a sharp decline in their stock market price on the morning of the earnings call and decided not to go ahead with the plan to talk about ESG performance. Instead, they decided to remove those pages from the slide pack.

> *…30 minutes before we were… he [the CEO] was about to put on his microphone. So, the only thing to do was to rip out the pages.* [...] *It would have worked if it hadn't been such a terrible price reaction. So, we just felt no, this is not the right time to talk about it. (...) I still think that it can be perceived as 'now we're going into the soft parts', the advertising. You know, this time it was hard core, a bad earnings number and what can you do about it? We could not talk about anything else.* [SVP Investor Relations]

The worry was that the market would perceive talk about ESG performance as a smoke screen. This view was also expressed by the company that made a change. It thought that since results were good this was a good time to introduce talk about ESG performance, and not in a period with strong headwinds.

> *[E]specially since it turned out, that actually our financials came out quite well, then it is, I think, easier to add stuff like this. [...] Because otherwise it could be perceived by the investors that we tried to talk*

> *about other stuff than the numbers. But if the numbers are good, you can also add on some other good stuff.* [CEO]

Our interviews indicate that ESG performance is not integrated into the equity story. It is perceived as something soft and a "nice-to-have", but the financials are what firms perceive they need to focus on in a period of downturn. This is supported by the above-mentioned study that found that as energy prices declined sharply, so did the mentions of ESG issues in the earnings calls of companies in the utilities sector (Raman, Bang, & Nourbakhsh, 2020).

5. <u>Time horizon misfit</u>

An obvious reason for ESG not being integrated into the calls to a greater extent is the temporal aspect. ESG issues are often of a more long-term character, and do not necessarily match the short-term analysis that is the prime focus of sell-side analysts and the main focus of the call.

> *What they* [analysts] *are looking for there is guidance for the next three to six months.* (SVP Corporate Communications)

> *The environmental work and the development are much more long term. And if you look at a typical earnings call, it's much more either directional or short-term focused. That's just the focus of an earnings call, the nature of it. [...] So it's just not the right forum, I think.* (CFO)

The earnings call, in other words, does not seem to be perceived as an occasion on which the different parties (companies, analysts and investors) feel that it is relevant to discuss the long-term value-creation of the firm. Those conversations are instead mostly happening in one-to-one meetings between corporate representatives and the buy-side, but also at the Capital markets day, which typically takes place every two to three years.

> *[T]his kind of topic fits better into the Capital Markets Day, and those long-term investment meetings, where the investor and the analyst ask more questions about, so okay, what about the strategy? What about the future? What will make you competitive in one year, in two years, in three years? And those are questions that don't take place… they do not exist in the investor relations call. It's much more around, you know, growth numbers and EBITS and what about the raw material; and we saw this and that happening in the market over the last two months or last week.* (SVP Corporate Communications)

One reason for preferring the short-term focus, as expressed by a sell-side interviewee, is that uncertainty increases with the increased time horizon. The respondent also pointed out that even the companies themselves do not know much about the long-term future:

> *I am being a bit harsh now, but if they were to show flashy PowerPoint slides about how this would look in 2040, I don't know what value that would be: What do they know? [laughter]* (Sell-side analyst)

Concluding remarks and suggestions for future research

This paper reports on our attempts to facilitate a process between investor relations and sustainability functions to integrate ESG issues in quarterly earnings calls. We found it quite difficult to instigate such a change, and that neither companies nor analysts might even find it desirable to do so.

Perhaps integrating ESG factors into earnings calls is after all like trying to fit a square peg into a round hole. The focus of the earnings call is short term and purely financial, where key figures are communicated in a standardized format. ESG-related matters tend to be long term, often non-financial or not quantified, and largely lacking in standardized key metrics. It appears that it will take a lot of effort for companies to start including ESG and a more long-term view in this particular setting, especially as there is no great interest from the analysts' side. Is trying to integrate ESG issues into this specific forum perhaps an unnecessary, or even unwarranted, aim?

At the same time, as noted in the introduction, studies record an increased tendency for ESG to be discussed in such calls ((Raman, Bang, & Nourbakhsh, 2020; Bingham, Tylenda, Scott-Gall, Vilburn, & Wilson-Otto, 2018; Butters, 2019). The corporate representatives in our interviews stated that even if the Action Lab did not lead to any immediate or obvious changes, they would still like to explore how they can increase the focus on ESG performance in the calls. The representative of the company that included ESG issues in its call told how: "I have already prepared the slide for Q4".

Subsequent to our project, researchers at NYC Stern together with a number of US corporations developed a framework that can be used to integrate ESG issues into earnings calls (Eckerle, Tomlinson, & Whelan, 2020). We propose that a combination of this framework and an action research project such as the one presented in this report could be a fruitful avenue for researchers who want to keep exploring the integration of ESG issues into capital market conversations.

We have yet to see the long-term effects of this project. One year after the end of the project, however, a sustainability manager at one of the participating companies mentioned to us that as a consequence of their participation, the sustainability department and investor relations are now working more closely together. Future research may want to include follow-up interviews not just immediately after the call, but also one or two years later, in order to capture continuing processes after the research-based intervention.

Future action research may also want to take a specific sell-side analyst focus, and facilitate a pre-call workshop that could spur relevant ESG questions for the Q&A session. As mentioned above, one company did take it upon themselves to educate investors on what they could ask about ESG in a financial setting, and this could be done more systematically across the industry in a research-led process. A key component of this could be to explore how to "work sustainability into the Excel sheet". As reported above, this appears to be one of the main challenges for integrating ESG issues into the call. In a project involving Harvard Business School, among others, a "hybrid metrics approach" is currently being developed that combines companies' environmental and social impact with standard measures of financial performance (Kramer, et al., 2020). The initiators suggest that it might be possible, for example, to calculate the Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) variation in relation to reductions in carbon intensity, and use this ratio to predict changes in future earnings based on planned investment in renewables. This or similar approaches might serve as input to a future Action Lab process.

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