

Think Ahead podcast – Season 3

Episode 2 – Regulation, reporting, and the value question: ESG in a shifting landscape

Sergei Guriev [00:00:07,950]

Hello, and welcome to Think Ahead, our London Business School podcast that brings you sharp analysis, bold ideas, and the latest research to help business leaders navigate this rapidly changing world.

I'm Sergei Guriev, Professor of Economics and Dean at London Business School. Today, I'm joined by two brilliant guests who bring both academic rigour and frontline experience to the table. Marcel Olbert, Assistant Professor of Accounting at London Business School and Katharina Neureiter, Global Co-Head of Sustainability at Carlyle – also an LBS alumna, Executive MBA 2021.

In this episode, we are turning our attention to the evolving landscape of sustainability regulation, and what it means for value creation in business and in private equity. From ESG reporting mandates to shifting geopolitical realities, the rules of the game are changing really fast. Marcel, Katharina, welcome to Think Ahead.

Katharina Neureiter [00:01:01,779]

Thank you.

Marcel Olbert [00:01:02,760]

Thanks for inviting.

Sergei Guriev [00:01:03,794]

Marcel, you're doing research on transparency disclosure in the ESG area. How does ESG disclosure regulation drive sustainable business? What is the big picture around the world? What does your research tell us?

Marcel Olbert [00:01:21,064]

This is, of course, a huge area of research. So it's not only my area of research. I also look into that, but there is now a very rich body of interesting evidence produced by a host of colleagues around the world. And I would say the big picture takeaway, as of today – to keep it short, because we will dive into the details also with Katharina – is that regulation does drive change.

So there is, I think, the common perception that sunlight is the best disinfectant. So in particular, transparency regulation has been shown, in different settings, to drive actual change. For example, reductions in environmental emissions, and also more direct regulations like taxes, taxes on carbon, which also includes emission trading systems, do have real effects on corporate behaviour across the globe. That's the punchline takeaway.

However, there's also rising evidence that the increasing bureaucracy is not necessarily helpful, neither for firms who bear the burden of the compliance, nor for investors who really need information that

comes out of the transparency, which is informative and helpful. And more is not always better. And I think we will dive into this question quite a bit today.

Sergei Guriev [00:02:27,064]

Absolutely. Thank you. As a CEO, I can confirm that sustainability reporting is sometimes creating additional paperwork. And for a global firm like Carlyle, I can imagine that you have enormous experience around this. So Katharina, as Co-Head of Global Sustainability at Carlyle, what is your role? What do you actually do for a living?

Katharina Neureiter [00:02:48,754]

It's a great question. My dad asks me that all the time. So our Sustainability Team is organised across three pillars. And we have quite a central team that then covers the whole firm reporting into our COO office. Our first pillar, we call it risk mitigation. This is where regulation sits. This is also where ESG data sits and diligence and risk.

The second pillar, we call value creation. So every single one of our asset classes, as well as underlying funds, has its own bespoke sustainability strategy. Because obviously, in credit, where it's all about risk adjusted return and pricing, you underwrite a little bit different than in private equity, where you own the asset and can actually drive change as an owner.

And then the final one we call market shaping, which is, I sit under UNPRI Private Equity Committee, which is our engagement with peers as well as our investors. And that pillar really is a horizon scanning pillar looking ahead. What are the big topics coming up? So the last three to four years, obviously, the whole industry has galvanised around what does net zero mean for private equity? Frameworks were put together. We were part of many of those.

And so I think, how do you codify value creation, social issues, put probably supply chain, this is sort of like on the horizon, what are the topics that are very meaningful to our investors that we need to sort of get ahead of? Physical climate risk is another one. So that's how we structure our team.

Sergei Guriev [00:04:24,051]

For a global firm facing a fragmented disclosure regulation landscape this is probably a challenge, right? Marcel knows that as well. We are in a world where new regulations are coming in. The EU's Corporate Sustainability Reporting Directive (CSRD) took effect a few years ago now. SEC in the US, Securities and Exchange Commission has its own rule adopted a year ago. And disclosure is supposed to start this fiscal year. The UK landscape is also evolving. How do you address those challenges of disclosure regulations?

Katharina Neureiter [00:05:01,380]

Yeah, as an investment firm, we always have these two levels. One, there's disclosure on us, and then there's disclosure on our portfolio companies. And our job is basically to help, to do both at the same time. One of the things we wanted to say is our pressure, the regulatory pressure is only a part of it. A lot of the reporting we do is for our investors, for our limited partners, LPs, because they, as you say, they want transparency around how are we managing their investments and do we appropriately price and integrate the risk that our investments face?

So like a lot of the conversations I have with our investors is around how do you integrate physical climate risk and how do you underwrite that? In the last three years, I think carbon emissions is probably the biggest data point that now our investors really want. And we have probably about 100 to 200 requests for all of our different funds around carbon emissions.

So we started three years ago on the journey with new data providers to really get them a comprehensive footprint because there are some of our companies which are very mature. They have their own reporting. They can report their carbon footprint to us. There's companies that are very small for them. And this is very new. And then we need to estimate their carbon footprint on their behalf because our investors still want the data. They're not happy if we say, well, we couldn't get it this year. Sorry. So we need to put a lot of work into this.

The other thing I wanted to say is this is also really driving sustainability as an issue for the CFO office. Because before that, I think they didn't really have to pay that much attention to it. But we've been seeing now with the ISSB and in certain jurisdictions where ESG data has to end up in financial statements. Suddenly the CFOs are like, well, what am I actually reporting against? And that then comes into training and it comes into familiarising people with these statements.

We had a CFO that asked, OK, so if I have to publicly report my carbon emission, their X and my competitors, Y and my other competitors, Z – what's my narrative here? What am I saying? Am I better? Are they better? And they never had to basically answer these questions. So there's a huge educational piece, I think, on our end, that comes in with the regulations.

Sergei Guriev [00:07:17,205]

I also heard you're saying that there is a business case for ESG disclosure, at least in your relationships with your investors who want to understand how you're mitigating the climate risk for your companies. Marcel, what is the research saying about this trade off between ESG disclosure and financial performance that Katharina mentioned? CFOs tracking not just profits, but also impact on people and planet.

Marcel Olbert [00:07:45,742]

Yeah, I think that's a very big question. I think we could run a separate podcast only on this question. I think the latter part, what do we know about? OK, impact investing versus financial returns. I think this debate is not settled yet. So I'd like to start high level, taking a step back again. I think it's a perfect opportunity to talk about private equity firms in that specific space, because you have this fragmentation that you're facing across the world.

And private equity firms are often not heavily regulated because they act in the – maybe you would disagree – but act in the private markets compared to large public firms. So they don't always face, in particular their portfolio companies, don't always face regulatory requirements to publish. And this gives us as a research community a chance to see what's happening in this space, because if there's no regulation, we can observe the voluntary reporting, the business case you mentioned, and there will only be voluntary reporting if there's a business case and what to learn from that.

And that's something we set out to do with colleagues here at LBS, including Florin, to see, okay.

Sergei Guriev [00:08:51,735]

That is Florin Vasvari, Professor of Accounting.

Marcel Olbert [00:08:54,153]

Exactly. We were interested to see, OK, how much voluntary ESG reporting is there in the private equity industry overall globally, given that most often, they don't have to publicly report neither the portfolio companies, nor the parent firm. And we do see a huge increase in voluntary ESG reporting over the last 20 years, which already shows you there is a business case. And then we set out to explore the reasons, the determinants for that.

And we found exactly what Katharina just mentioned. It's mostly driven by investor demand. So LPs, limited partners who invest in these private equity firms to then deploy capital and acquire portfolio companies, they want to know what's going on. First of all, are there ESG strategies to cater to their specific investment profiles or needs?

And then second, are these strategies successful? What's going on with the emissions, for example? So we see that LPs drive this demand, for example, and I think that's almost causal evidence. We see that private equity firms provide more voluntary ESG information, for example, on their websites, that's how we measure it. If they receive more capital from investors who have signed up to the UN Principles of Responsible Investing, UNPRI. So it already shows you that. And that's the business case for ESG reporting information.

Katharina Neureiter [00:10:15,746]

Maybe I can add to some of that, to the pressures. I think I probably obviously largely agree with you. I think the other element that we're really seeing where you're saying publicly listed companies have a higher degree of regulatory exposure, right? But our private equity companies are very often in the value chain of public companies.

So the biggest driver we actually see is public companies pushing it down to their supply and value chain. We call it the net zero domino effect. A lot of large companies have set a net zero target. Scope 3 is their value chain. So now they're basically pushing it into the companies we would be working with. And we've done an analysis across our portfolio, seeing that in Europe, Asia, and the US for the companies that participated in our analysis, about 60 companies, about 14 billion of their revenue is tied to those types of ESG requests from their customers. That's about a third, on aggregate, of revenue, which ranges between 10% to over 50%.

And that means that we had two small healthcare companies, they're tech companies in the US. They have AstraZeneca as a large client, AstraZeneca requires their value chain to have climate targets. So very quickly, they came to us and said, how do we set our climate targets? Can you help? And so we see that sort of domino effect actually very, very prominently in our portfolio.

Marcel Olbert [00:11:39,456]

Maybe a follow up on that. That's also what we see in the data. And I think we can learn something very important for policymakers here. So what we see in the data is that there is more ESG reporting among the private companies and ESG firms if they act in environments where there is already mandatory reporting requirements on the large public firms. So you already see these spillovers. And so there's a spillover of reporting requirements or maybe also other ESG regulations for the big firms on the small firms and on the wider private market.

And the key learning that I would take away from that is for policymakers. Maybe we don't need to overshoot with regulating the whole economy and each legal entity independently of the size because we have maybe these positive externalities, if you want, of maybe concise regulations that address the big

fish. And that's maybe a good middle ground because we all know that bureaucracy and compliance costs is a burden for, in particular, many young and smaller firms.

Sergei Guriev [00:12:45,342]

I lived in a country where bureaucracy is actually a positively connotated word, France. And in Brussels, bureaucrats are actually very proud of what's called the Brussels effect, where they introduce a regulation and make use of the fact that Europe is such a big market that big companies who want to operate in the European market have to obey this regulation, and therefore, you have the domino effect. In that case, it would be GDPR. The initial Brussels effect was GDPR, which was globally adopted. And what Katharina is talking about, Scope 3 reporting requirement, which is part of this directive that I mentioned – Corporate Sustainability Reporting Directive in the EU. So every company which works in the EU now suddenly starts looking at its value chain, and that may actually involve companies in the US.

Katharina, if we talk about this link between sustainability disclosure and value creation, would you share an example that you're proud of where a company becoming more transparent on what it's doing in the field of sustainability actually created additional value for Carlyle or other investors?

Katharina Neureiter [00:13:56,581]

Yeah, it's a really interesting question. I think we are not looking at it through the transparency and disclosure, because ultimately, we are private companies. So the way we frame our value creation approach – and we published that in our latest ESG report we had about three years ago – we talked about the EBITDA of ESG and we took this a step forward, talking about the EBITDA of resilience. And I think all of us know that the world is maybe becoming a bit less predictable.

As a historian, you could argue it's always been like that. But I think there's a sense right now that the velocity is increasing. So we've been thinking very closely how sustainability can help drive resilience. And the way we sort of visualised this was there's sort of a business danger zone. And there could be all sorts of things, the tariff regime, it could be the CSDDD regulation around your own value chain and the risks associated with that. There's new chemical regulations that you have to really re-engineer your materials. And these are all business risks

So how can we use sustainability to mitigate these risks, but also flip them into opportunity sets? So we have three pillars for that. One is cost saving through sustainability. Like rolling out LED lamps and reducing energy footprint, maybe consolidation of businesses. And I can talk through an example just in a moment. And avoided losses, which is fines, regulatory fines and so forth, is sort of a big bulk of sustainability. And that's sometimes, the things that are not as visible.

The next one we call opportunity capture, which is if you are first before your competition to reformulate some products to get ahead of the regulations, you can actually capture opportunities that are beneficial to you over your competitors.

And then the last one we call adaptive capacity, which is really about innovation, and again, driving ahead, maybe launching new green pricing power, new markets that you can access, where your competitors are struggling.

One great example of this is a large chemicals company that we own in Spain. It's about a billion revenue, called Altadia. And we took them over. They had a good, a decent ESG programme. They had a decarbonisation target. And we said, actually, we can do more here. And so within three years, we generated about 26 million of economic value for the company. We had ESG-linked financing. So better

terms for meeting the decarbonisation targets. The decarbonisation targets led to direct energy cost saving, as well as operational savings.

And the third one is that through the decarbonisation programme, they actually reformulated some of their products a little bit and made more margins, so they improved their product margins. And all of those three levers basically ended up being like a few million of directly EBITDA savings, value creation. And that's how we really want to drive, alongside our colleagues in the value creation team, change in our portfolio.

Sergei Guriev [00:16:53,789]

Thank you, Katharina, for this example. I am wondering when we talk about voluntary reporting, especially voluntary reporting, to what extent do investors actually trust what companies report and should they have confidence in the reported metrics? Do we think that there is some greenwashing somewhere out there happening as well? Marcel, what does research show about this?

Marcel Olbert [00:17:15,000]

Yeah, of course, that's always the big elephant in the room with voluntary disclosures. How much greenwashing is there going on? And this does not only apply to ESG reporting. This question has been out there forever, even if there's voluntary financial reporting, there could be some massaging of the numbers going on. So there is huge evidence and research that greenwashing is happening. But then again, I think it comes down to a business case. And greenwashing can be a negative NPV for the company, if there is enough investor and society pressure on the company.

For example, what we see, we look at this in our research as well, because we said, OK, obviously, the disclosures we see of the private equity firms, they are voluntary. So that could be greenwashing. So we did two things to look at that. And I think our results are broadly representative of how to view this topic. First of all, these disclosures are seen as credible by investors or even increase if private equity firms interact with the same investors multiple times in the same decade. So like repeat LP investments lead to a credible disclosure.

So you see, there's a business case of not greenwashing, of course, a reputational effect. And then that's maybe the biggest takeaway from our paper. We would define greenwashing as reporting on something that you don't actually do in that way. So that's the biggest part of our research. We looked at that. Do private equity firms, who voluntarily and publicly talk a lot about their ESG strategies, do they actually invest in more sustainable outcomes?

And we find broad evidence that this, at least on average, for the whole global sample of our firms, is the case. So firms who talk a lot about ESG and disclose more ESG, they invest in portfolio companies who then subsequently reduce more of their environmental emissions globally or for a US sample, we looked at chemical releases. But environmental outcomes was not the only thing we saw evidence on. Also, workplace safety measures, workplace safety increased if companies have, private equity firms have more of that ESG angle. And I think what we see makes sense.

As Katharina said, there must be a business case for these sustainability strategies. And here the business case is obviously also risk mitigation. If you have a safer workplace in your manufacturing plant, in the long run, that should lead to higher cash flows. And overall, we also see a reputational risk mitigation when it comes to ESG issues. And that's something I think investors also care about.

Sergei Guriev [00:19:53,082]

So when you see voluntary reporting of good news, you are more likely to believe that good news is actually out there. So there is a positive regression coefficient in that paper.

Marcel Olbert [00:20:03,454]

There is. But the key is that there is observable data on the outcome. So I would be careful with voluntary disclosures if you cannot verify actions. But we could do that. And probably private equity firms know that investors look closely. And if there's evidence you can collect on the outcomes, then greenwashing would become quite costly. That's how I would view the results.

Sergei Guriev [00:20:27,978]

Yeah, that's a famous Russian proverb cited by Ronald Reagan, President Reagan of the United States – trust, but verify. Yeah. And once you have a verifiable or at least observable outcomes, investors can actually double check. Katharina, I would like to pick up on where you left it, talking about unprecedented speed of change and unprecedented uncertainty.

I can confirm that economists use what's called the economic policy uncertainty index, and it is at a record high right now. We've never seen it during COVID or during the global financial crisis. So we are at the unprecedented juncture. And part of that is also a debate about business and sustainability and the fragmentation of different governments, attitudes to, in particular, ESG reporting.

How do you handle those issues?

How do you talk to your portfolio companies and your investors about this fragmentation of the views of the political class, of voters, of policymakers on sustainability and sustainability reporting?

Katharina Neureiter [00:21:29,625]

Back to basics. That's our basic approach. I think a more sexy term is coined by Alex Edmans. He talked about rational sustainability, which basically is: there's social realities. People who are on zero-hour contracts. If you have a single mum on a zero-hour contract, probably not very good for her mental health and productivity. You have physical climate risk realities that are increasing. You have insurance companies pressuring you to do it.

So I think what we always go back to is let's leave ideology aside. We're not telling anyone in a business case to abandon a fiduciary duty on behalf of other objectives. We are talking about, what we've been saying before, risk mitigation, what do your customers want and how do you run a better business and basically, focus on that, do that really, really well. And there's so much white space I see in my companies to still improve on the basics. We don't even need to go to sort of higher grounds. And I think that protects you in any environment, regardless of currently is this in or is this out or is this term good and this term bad? Go back to basics.

Sergei Guriev [00:22:39,931]

Yeah, I can see that in my day job as well – as a Dean, I really care about the international diversity of our student body. And I think there is a business case for this because students who come to London Business

School also expect to meet people from all kinds of cultures because it's good for their future careers and lifetime income, not just wellbeing and excitement.

And I can see how a business case for sustainability can be made to investors. And yet, if there is a regulation, that means voluntary reporting is not enough, or, Marcel, policymakers just over-regulate?

Do you think that voluntary reporting alone will be enough? This is the question that always arises when we have regulation on the table.

Marcel Olbert [00:23:24,019]

Yeah, I think that's the \$1 billion question, if not more. And you as an economist know exactly the theory behind it. I think we do need regulation if we perceive that there are externalities that are not internalised by market participants, such as firms. And the simplest example is, of course, environmental emissions. So there is a negative externality if a company pollutes but does not have to price this in the product and the pollution is global. So we certainly do need regulation. I think the big question is how to strike the balance between overshooting, also in terms of compliance costs and still capturing these negative externalities. And if we believe in a functioning market economy, then financial incentives work.

And I think that's also what Katharina referred to as opportunity capture with respect to regulation. Regulation has a bite if it creates a financial incentive for firms to change behaviour. And we have a lot of examples from practice and also from research that this works. A tax is one example. A tax makes certain behaviour more expensive. So you incentivise to change your behaviour. And then you have a positive investment case to invest, for example, in a greener technology or to go to a different country or to stop a certain product. So that will work. So I would argue that we should always think about the financial incentives induced by certain regulation, and transparency of regulation is not a direct intrusive pricing mechanism.

So that then it gets a bit more nuanced and it's quite costly for companies. That's why we strike the balance, or policymakers try to strike the balance and impose size thresholds. That's like the easiest thing you can do. Only companies above a certain size should be mandated to disclose on a mandatory basis. And here we see the developments in the European Union with the CSRD and Omnibus package. So regulators have understood. Maybe we were overshooting a little bit by forcing 50,000 or more companies in the European market to now produce extensive sustainability reports. So this has now reduced the scope to around 10,000-15,000 companies because there will be a threshold of, I believe, 1000 employees or more.

So in that space, I think we really need to strike the balance. But, to come to your initial question, regulation is typically needed when there are negative externalities. The question of whether there is a negative externality, is sometimes complicated and sometimes up to political debate, of course. And it maybe depends on the policy in a given country.

Sergei Guriev [00:26:10,680]

Thank you, Marcel. As an economist, I did focus on trade-offs. And one of the trade-offs is something that Katharina has already mentioned. A private equity company usually thinks about confidentiality, competitive advantage that doesn't have to be published right away. So how do you strike a balance between what Marcel was talking about, Sun is the best disinfectant, on one hand, and the need for confidentiality for successful investment in the private equity space?

What does Carlyle do for it?

And how does your practice work on it?

Katharina Neureiter [00:26:44,351]

So in 2020, actually, we realised that the problem is that every single asset owner or asset manager asks for ESG data in a slightly different way. So basically, data was sort of collected, but our investors couldn't compare the data and they would come to us and say, well, you collect this particular health and safety metrics in this way, and someone else collects it in sort of another way. And you give us this format and someone else gives us that format. So we can't really compare, right?

And so a few people got together in a small Zoom room and hashed it out and came up with this concept of the ESG Data Convergence Initiative, which means that we converge as an industry around 10 to 12 core metrics, and all of us collect these metrics in the same way and report them in a harmonised format. So the metrics are carbon emissions, renewable energy, health and safety, employee participation, and board diversity. And these metrics go to an external body. They get verified and audited before they get sent to our investors

Or there's a portal that can actually directly get the data for the funds that are invested in and then they get a comparable data set between all the GPs they invest in. It's been really successful. And we have, from an initial group of maybe 12, now a set of 500 GPs and LPs that have committed to collecting those indicators in that way. And I think it's in the third or fourth year, a data set of about 9,000 private companies that don't necessarily have public disclosures.

Sergei Guriev [00:28:21,466]

Marcel, before the data convergence is universal, firms probably use this regulatory and disclosure arbitrage, as well as tax competition probably driving firms to different jurisdictions. How does that affect ESG reporting and the sustainability activities of firms?

Marcel Olbert [00:28:40,964]

Yeah, excellent question. Of course, once you have a fragmented landscape, companies also have the incentive to avoid regulation if they do think that's financially viable. And we have early evidence on that, that there is regulatory arbitrage in the sense of more direct regulation. Taxes, for example, I have some research also showing that companies do reallocate activities to the global south, for example, to Africa, as carbon prices increase in Europe. So we need to think about, is this something we want to stop?

The EU thinks yes, that's why we will have the carbon border adjustment mechanism. But we also see evidence in the transparency regulation landscape where firms divest assets in jurisdictions where they would need to report on the "dirty", brown assets, maybe. And is this something that the overall policy goal intends to achieve? Certainly not, because again, the problem of pollution is global.

So, yes, regulatory arbitrage exists. It's a complicated topic, and only, of course, perfect harmonisation around the world can help stop that. But given the political environment we are facing, it's very unlikely to see such harmonisation. And that's why we see an increasing trend in avoidance regulation that tries to stop the regulatory arbitrage, like the carbon border adjustment mechanisms or regulation that tries to induce these automatic spillovers, if you want.

And here one example would also be like a global minimum tax that's being discussed. If we cannot get all countries on the same page to raise corporate and other taxes to a certain level, then we try to work with a minimum tax rate such that given countries, let's say a European country, applies a top-up tax rate,

if your firm engages in regulatory arbitrage and moves abroad. So I think that's something we can expect in the future as the global, political landscape is quite fragmented, that individual jurisdictions will think about measures to level the playing field for the businesses in their home jurisdiction.

Sergei Guriev [00:30:48,643]

Yes, there used to be an agreement on the need for a minimum corporate income tax rate, which now is under pressure. Of course, there is now a discussion about global minimum wealth tax rate, which is unlikely to happen. The question is, if we get to a global minimum carbon price, which will create market incentives for companies to adjust their activities, adjust the way they operate, are you optimistic about this, Marcel, anytime soon?

Marcel Olbert [00:31:21,746]

I'm probably too inexperienced to make such a projection. But given the current political environment, you mentioned the uncertainty policy index being at a record high, probably not any time soon, because we have very large economies like the US, or economies in other parts of the world, with highly polluting sectors that employ a lot of people. So probably it's hard to get all of these economies on the same table if we cannot even agree on other globally-coordinated measures. I don't know what your take is on that, but I would say it's unlikely in the near future.

Sergei Guriev [00:32:02,142]

I'm not sure if Katharina is supposed to provide policy advice to European or American policymakers. I would just say that I would rather agree with you. And what the EU is counting on is the carbon price within the EU and the carbon border adjustment mechanism. But of course, as we discussed, measuring, capturing those metrics, collecting data, is extremely hard, and in technical operational terms, introducing a universal carbon border adjustment mechanism will be extremely difficult. So I think we should at least hope that the companies will drive the ESG agenda because there is a business case, because there is a case for value creation.

Marcel Olbert [00:32:46,523]

Maybe to follow up or to add one piece. And there will likely be a business case. But people don't know that even the administration in the US is considering something like a carbon border tax. They'll likely impound a carbon element into tariffs. And there could be a business case for even US companies to drive emissions down. But this will be packaged as a tariff regime if it will come. So things are moving quickly, but with high uncertainty, as you said.

Sergei Guriev [00:33:18,221]

As an economist, I confirm that the US government needs the fiscal revenues and the current US administration likes tariffs. So I think that there is a case for this. So in the end of each podcast, we ask both guests one single question. And today the question is: Thinking ahead, what are the most important sustainability regulations, sustainability disclosure trends, that investors and firms should watch?

Katharina Neureiter [00:33:47,790]

Maybe I'll take it a bit broader, to really do a horizon scan thinking and come back with the AI point. What we're really seeing is how the future is kind of happening now. So AI can really help improve the data problem that we've been having, increase data accuracy, but also really reimagine the future, both in a product sense as well as potentially from a risk perspective.

So you have now big satellites in the sky. They can tell whether there's an adult working on a field or a child working on a field. And then you have probably potentially civil society that can use big data to analyse and pinpoint child labour in a supply chain. So as a responsible company, you need to be thinking about this and be one step ahead of these trends to mitigate the negative risk that could come to your business. So I think for me, thinking ahead is really being innovative and thinking through the big trends that big data and AI generate from a risk management set as well as an opportunity set for your company.

Sergei Guriev [00:34:53,843]

Thank you. Marcel?

Marcel Olbert [00:34:55,437]

Yes, so we were talking about policy uncertainty. We don't know exactly where ESG regulation is going worldwide, having the US in mind. And there's also been some backlash, of course, against ESG. But what I want to do is thinking ahead, I would like to remind our listeners, in particular, students, that there's an unstoppable wave of both real-life realities and regulatory realities.

We have the Conference of Party, COP, with long-standing commitments. We have things like the EU Green Deal with lots of already passed regulations that are coming. So there are lots of opportunities for students, businesses, and researchers to look at these regulations and make a business case out of that. Because only if we can make a business case responding to these regulations, will they actually have bite and drive sustainable change.

Sergei Guriev [00:35:42,710]

Thank you very much, Marcel. Thank you very much, Katharina. Thank you for joining us on this episode of the Think Ahead podcast.

Today's conversation highlighted how sustainability regulation and sustainability disclosure affects businesses, investors, private equity firms around the world.

We'd love to hear how your organisation is navigating those challenges. Are new rules reshaping your strategy, operations, investment decisions?

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