

Why ESG matters

February 08, 2017

It's not exactly as easy as ABC, argues Mike Tuffrey, but ESG – Environmental, Social and Governance – is the key to investors getting traction on the behaviour of companies they own.

Forgive me if a note of grumpiness creeps into this comment, due entirely to too much Trumpiness at present. But I just couldn't resist giving a little tongue-in-cheek cheer when I saw this year's [Most Controversial Companies Report from RepRisk](#).

This identifies the ten companies most at reputational risk from governance problems like corruption and fraud, as well as environmental and social controversies. For once, the rating is based on a rigorous analysis rather than social media chatter or NGO high profile campaigns, the aim being to raise awareness of the ESG risks that need to be addressed by global corporations.

To be honest, I've become a little fed up with the boosterism of the usual 'most this' and 'most that' rankings – like the ones that named BMW as “the world's most sustainable company” last year (since when was selling metal boxes powered by fossil fuels a sustainable business model?); or the one that advised investors the year before to back Volkswagen as “best in class... in terms of economic, environmental and social criteria” just days before that motor manufacturer's systematic cheating caused a collapse in its share price.

The interesting thing about the RepRisk study is that only one of the ten is a household name. The others are embedded in other companies' value chains. The analysis helpfully names the customers and suppliers, and especially the financiers, with whom the baddies do business. Reputation risk can be contagious.

And that thought takes us neatly to the central importance of 'investors' in transitioning to a responsible and sustainable future. By investors, I mean the complex system of both debt and equity finance, with their attendant rating agencies, fund managers, asset owners and ultimate beneficiaries – like me and you and our pension savings.

(As a trumpiness aside, it's becoming clear – irony of ironies – that one industry sector is likely to be fairly well protected from the looming Brexit fall-out: London's financial services cluster of debt and equity providers. That's because it's the one export from Britain's island which continental Europe can't so easily replace.... not exactly the outcome Leaver voters wanted when they protested against southern affluent elites.)

Sticking with the theme about investors, this month's Corporate Citizenship Briefing round-up includes an analysis by Martina Macpherson of S&P Dow Jones Indices of sustainable investment trends for 2017 and beyond. Also this month Jayesh Shah explores Development Impact Bonds as a new investment vehicle to achieve broader societal aims, such as those codified by the SDGs.

If investors are the key, it's good to see that during 2016 the volume of green bonds issued doubled, [according to Moody's](#), and looks set to double again this year, to reach \$200 billion. That is debt finance tied to specific environmental outcomes with repayment underpinned by the business case payback.

Good also that the London stock exchange is announcing this week new guidance on ESG reporting, given that, as they say, such data is ["already impacting capital allocation by institutional investors"](#).

That's also why we at Corporate Citizenship have teamed up with Blackrock and MSCI for an event later in February to explore how managers in sustainability, corporate responsibility and investor relations functions can better work with fund managers. That's all part of our programme looking at long term value creation. You can sign up [here](#). My current grumpiness notwithstanding, there's a real prize here, if we're all a little less self-congratulatory and a little more honest about current limitations. Working hard to do better is good, for sure; it's just not the end destination.

Mike Tuffrey is Co-founding Director of [Corporate Citizenship](#).



MIKE TUFFREY
