LOWER RISKS, HIGHER RETURNS

WHAT DOES YOUR FUTURE LOOK LIKE? | September 2017

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"Lots of companies don't succeed over time. What do they fundamentally do wrong? They usually miss the future." - Larry Page, Former CEO - GOOGLE

For most companies, talking about their future involves concerns over sales and costs. Others go beyond that and include environmental variables, employee initiatives and community engagement. From an investor perspective, these Environmental, Social and Governance (ESG) variables represent the future. According to the Financial Times *"investors evaluate ESG areas to analyze corporate behavior and determine the future financial performance of companies"*. As a matter of fact, there is evidence that companies working on ESG variables have a higher return over investment and a higher stock price value of 23% and 47%, respectively (Eccles et al, 2014).

Beyond this correlation to higher financial performance, ESG factors also provide a map for companies to build their own future, including environmental opportunities; social commitments such as engagement with employees, clients, suppliers, and the community; and robust corporate governance structures for risk oversight, transparency policies, and board accountability.

As more investors demand ESG disclosure, companies have responded with increased reporting. This trend has been supported by business leaders such as Michael Bloomberg, who encourages companies to report greater levels of detail on their climate change impacts (Ralph, 2016). Similarly, Larry Fink, the CEO of BlackRock, one of the largest asset managers in the world, targeted a letter to corporate leaders arguing for more attention to environmental, social and governance elements of corporate performance (Turner, 2016).

The importance of ESG is growing globally as international institutions such as the United Nations through their UN Principles for Responsible Investment initiative (UNPRI) raise awareness. In 2015, the UNPRI listed over 1,300 signatories, including 1,200 investment managers and asset owners. These signatories represent over $59 trillion in assets under management, 15 times more than in 2006. Similarly, in 2016, the Global Sustainable Investment Alliance (GSIA) reported that $6.57 trillion of U.S. assets under management are invested in sustainable, responsible, or impact investment strategies, a 76% increase since 2012 (GSIA, 2016).

Companies should identify what are the ESG factors that are material for their business, according to their industry and their unique competitive environment, if they are to remain viable in the future. This analysis will enable them to understand their challenges and map a sustainable vision that connects to their core business DNA. The good news is that today we have the empirical evidence to supprot that the future looks greener than yesterday.

About ESGCompass

ESG COMPASS is a Software as a Service solution that helps board members and the management team to anticipate risks and improve sustainable performance. Its unique methodology captures data from 5 stakeholders, including: employees, clients, suppliers, community and investors, closing the GAP between risks analysis and what is actually happening inside the company.