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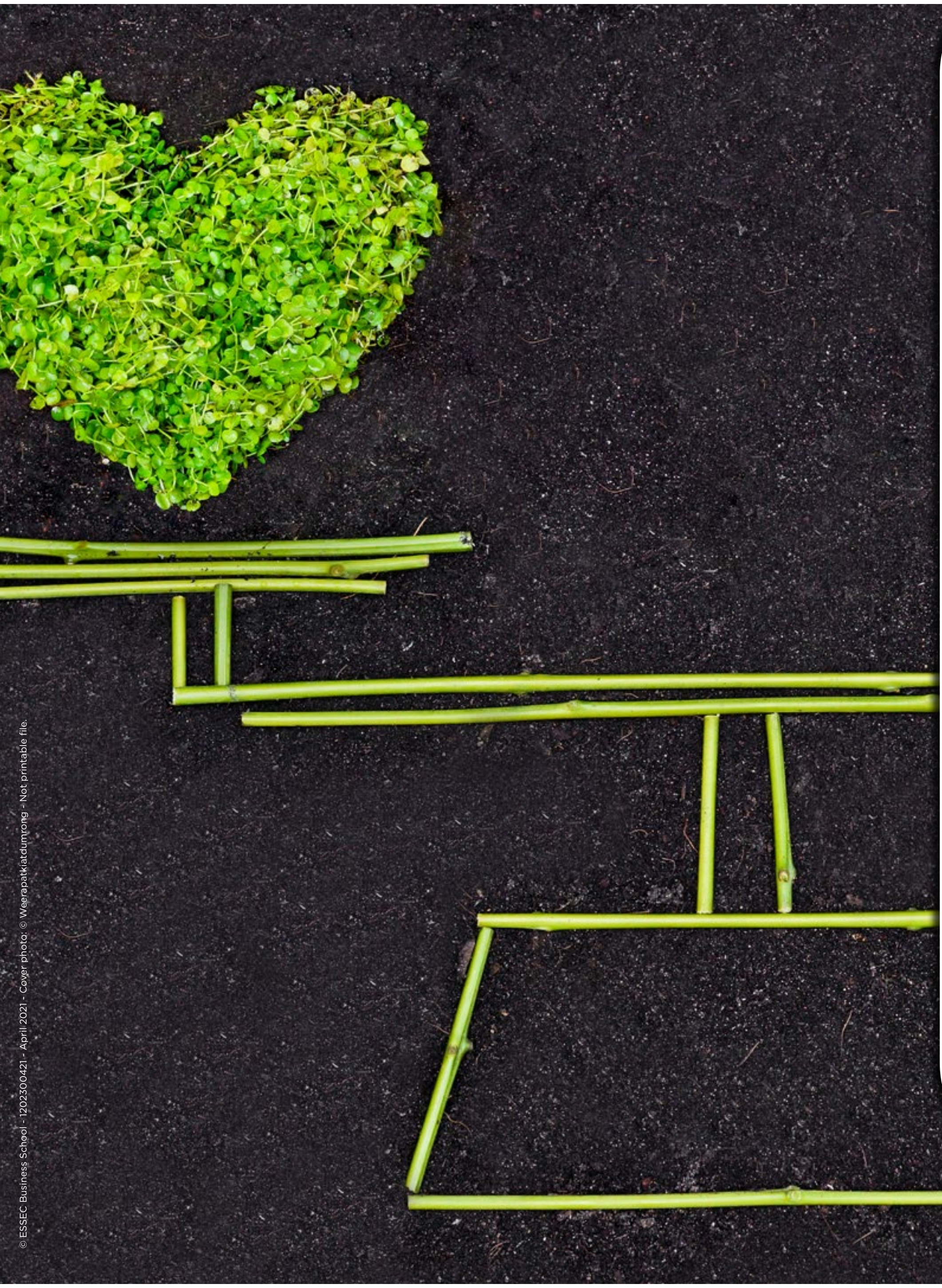
Research Pods© Series

How Financial Markets Can Boost CSR



ESSEC Business School Professor Adrian Zicari's research on South America reveals a surge in local-specific sustainability indexes for investors seeking a clearer picture of firms' responsible business practices. Can the model be applied to other countries?

This has mainly come about through a combination of two factors – the limited nature of stock exchanges in South America and the cost of obtaining ESG data. In developed markets, this assessment data is collected by investment funds or by social rating agencies which makes the cost of obtaining it high for investors in developing countries. By using indexes created by their local stock markets and whose composition is freely distributed so that any investor can use the information at no cost, Brazil, Mexico and Chile have creatively detoured this onerous aspect.

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THE 3 Ps IN A CoBS POD

PERCEIVE
with a set of key takeaways

PROJECT
with food for thought: on yourself, your organisation and the wider context

PERFORM
by putting it all into practice using action tips

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PERCEIVE

with a set of key takeaways

- Socially responsible investing (SRI or green or ethical investing) is about gaining financial return while seeking to invest in firms demonstrating a conscious effort to improve their impact on business, society and the environment.
- For investors to make the decision to place money wisely – and responsibly – they need to know what a firm is actually doing in terms of responsible business practice and how it performs.
- This is where the sustainability index comes in – stocks quoted in terms of environmental, social or governance (ESG) criteria.
- Such indexes have been around for some time in industrialised and developed economies, encouraged by the UN Global Impact initiative of 1999 (ex: The Dow Jones Sustainability Index or the London-based FTSEGood Index).
- Latin America has also launched such indexes, specifically Brazil, Mexico and Chile, but they differ from those of developed markets in the direct participation of local stock exchanges that aim to gather a critical mass of highly respected stakeholders.
- This is because of the limited liquidity of stock exchanges in South America and the cost of obtaining ESG data.
- In developed markets, this data is collected and assessed by social rating agencies. As these agencies rarely cover companies from developing countries, the cost of obtaining ESG data remains high for investors in those countries.
- By using indexes created by their local stock markets and whose composition is freely distributed so that any investor can use the information at no cost, Brazil, Mexico and Chile have creatively detoured this onerous aspect.
- For instance, the Corporate Sustainability Index (ISE) in Brazil, became a reference for companies wanting to improve their practices, wishing to improve their reputation, gain knowledge and exert influence on competitors and suppliers via their presence in the index.
- For investors, the most valuable information is not the Index composition itself but the methodology for assessing ESG performance.
- Sustainability Indexes cannot perfectly replace the lack of ESG rating agencies. Indeed, both serve different purposes: the former are meant for reference or benchmark for SRI portfolios while ESG rating agencies evaluate the ESG performance of particular firms.

Read the full feature: https://councilcommunity.org/2017/10/17/can-financial-markets-push-for-csr-part-1/

PROJECT
with food for thought

- To what extent do you think that launching a sustainability index with a well-known brand would accelerate the awareness of this index?
- Imagine you have $150,000 to invest. Faced with an investment decision, what would you invest in? Would you invest in green bonds? Why or why not?
- How much do you trust sustainability indexes in developing countries? How could firms who attempt greenwashing practices be found out and how would you sanction them?
- What's the difference between shareholder theory and stakeholder theory? Can the two work hand-in-hand?

Thoughts

PERFORM

by putting it all into practice

CHECKLIST

- [ ] **1. A good score and a minimum liquidity** should guide the investment decision.
- [ ] **2. In order to be attractive to socially responsible investors (SRI),** study an organisation's data on various parameters such as general, product nature, corporate governance, economic and finance, environmental, social, and climate change.
- [ ] **3. Read up on the approach rather** than the result of the index before investing and help it in your decision to invest or not.
- [ ] **4. In the absence of an index,** download and read company reports and gather any information from the media on your potential target for investment.

Getting involved

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