

## Chapter 7: Moral Investing

**“Moral” or “sustainable” investing means considering the environmental and social impact of investment decisions and the business activities they support. It has become an important part of investing as people are increasingly concerned about the broader impact of economic and financial activity on society, nature and the world at large.**

Climate change has attracted much attention in recent years, due the danger it poses for many regions, the unforeseeable long-term consequences, and the need to negotiate and enforce global agreements. However, there are many other environmental, social and governance issues, such as air and water pollution, bio-diversity, deforestation, occupational health and safety, working conditions and pay, management compensation, product standards, gender equity, minority rights, LGBT rights, abuse of market power, tax evasion, etc. The list of concerns is long and continues to evolve.

ESG stands for **Environmental, Social and Governance**. The principle is that businesses should consider the impact they have on a broad list of “stakeholders”, i.e., groups that are affected by their decisions, beyond their shareholders or owners: this includes employees, suppliers, customers, communities where they operate, the environment, etc. The interests of these groups are not necessarily aligned and businesses and governments need to strike a balance between competing objectives and demands.

**“Stakeholder” capitalism** stands in contrast to the traditional focus on shareholder returns, which

defines the objective of a company as maximizing profits for its shareholders. There can be marked differences between the two, for example when a company emits pollutants or eliminates jobs to shore up profits. In the long run, however, the differences may be less stark as many actions that are good for stakeholders ultimately benefit the company’s bottom line (for example, by enhancing its image and making it more attractive for consumers and employees.)

ESG is a broad field on which there is a vast and growing amount of information. Conditions, behaviors and objectives continually change. Here is a list of questions that concerned investors and consumers could ask from companies (and from the fund managers who invest in them):

### *SOME ESG QUESTIONS FOR BUSINESSES*

- *Does the company measure and have concrete action plans to reduce its **carbon footprint**? For example, what is the present and planned future share of electric and hybrid motors for carmakers and transport companies? What is the share of renewable energy for energy companies and utilities?*
- *What air, water, soil or other **pollutants** is the company emitting and what are its plans for reducing emissions?*
- *Does the company have a formal policy to focus on **stakeholders** and what measures is it taking in practice to implement this policy?*
- *Does the company have official **diversity** policies and what are its practices in this regard? Are they subject to any lawsuits or negative publicity regarding discrimination on the basis of race, ethnicity, gender, sexual orientation, or any other factors?*
- *Who sets and reviews executive **compensation**? What is the gap between management and average employee pay? What bonuses or stock options are given to managers and what are they based on?*

- *What are **labor conditions** and practices in the company, its foreign subsidiaries, and its entire supply chain? What steps does the company take to ensure absence of child labor, forced labor, unsafe working conditions, etc. among its suppliers around the world?*
- *Who **audits** the accounts of the firm? How long have the auditors been in their job and do they have other consulting contracts with the firm?*
- *Does the company have **monopoly** power in some markets and are there signs it is abusing its market position?*
- *Is the company respecting the **privacy** and confidentiality of customer information it collects?*

- Recycling obligations for manufacturers, retailers and consumers
- Labor standards and enforcement
- Minimum wage and universal basic income
- National health insurance
- Disclosure requirements and rights of shareholders
- Antitrust laws and regulations

This list is by no means exhaustive, and many of the answers are subject to debate. It gives an indication of the kinds of issues that investors and consumers are increasingly concerned with, and that are likely to shape the operations and success of various types of businesses in the future.

For all questions, it is important to go beyond official statements and ask what is happening on the ground. **“Greenwashing”** is the practice of companies adopting formal policies that sound good but are vague and do not lead to meaningful changes in the real world.

ESG is not only an issue for companies, it is also an important subject of government policies. Here are some examples of government decisions with important ESG implications for businesses and society:

- Carbon taxes or emission quotas
- Restrictions on other pollutants, e.g., sulfur dioxide, particulate matter, etc.
- Import restrictions based on ESG performance