H&M 45: What Does ESG Mean? Environmental, Social, and Governance - Part I.

Welcome to the 45th issue of *Hartz & Minds*, an occasional publication on Corporate Social Responsibility and Family Philanthropy. Topics range from "Garbology" to "Diversity & Inclusion," from "Servant Leadership" to "Product Development."

Environmental, Social, and Governance (ESG) are the three legs of the Sustainability and Social Impact metrics of investments or companies. Taken-together, these areas reduce risk and increase revenue in the long-term. Sustainability is a broad term to describe the universe of ways in which enterprises, communities, and the planet can continue to be successful into the future. What is NOT sustainable: violating human rights, employee or customer churn, governance malfeasance, squeezing vendors, economic stagnation, and, of course, pillaging the earth.

Environmental issues – depletion of natural resources, innovation in alternative energy, and repercussions of climate change have driven people, corporations, governments, and cross-national agencies from the UN to the World Business Council for Sustainable Development, from The Nature Conservancy to CERES.org to raise attention, develop solutions, and enable implementation. Businesses of all sizes and humans of all stripes must cooperate to slow this degradation.

Societal challenges – poverty, food insecurity, racism, gender inequity, corruption, meager healthcare, religious intolerance, drugs and violence, and concentrated economic growth are bumping up against climate change, population increase, and inter-national rifts. An array of NGO's and a smattering of companies are taking on these issues. For example, Amnesty International (human rights), Doctors Without Borders (healthcare), and Heifer International (poverty and nutrition).

Corporate **G**overnance ills – relationship (especially in the US) between Board and CEO, lack of transparency, insider trading, usury, disparate compensation, non-existent or incomplete safety protocols, poor employee relations, hiring and promotion bias, lack of training, failure to disclose risks, and inattention to consumer rights are broadly eroding trust. In publicly traded companies, quarterly reporting and going-forward estimates motivate financial games that impede long-term *sustainable* growth for the company and all its stakeholders.

Investing in ESG is about "putting your money where your mouth is." An early indicator came in the late 1950's when the International Brotherhood of Electrical Workers directed some of its pension reserve to fund the development of affordable housing. The next iteration arrived in the 1980's from multi-nationals divesting from South Africa to compel the end of Apartheid. In the 2000's B-corps, L3C's and other legal and accounting structures blurred the lines between purpose and profit. Socially Responsible Investing (SRI) took off. Why? Because studies show that, ethical companies perform best.

The next issue of *Hartz & Minds* will look at how companies can get ESG right.