H&M 46 Part II: How Companies Get ESG (Environmental, Social, Governance) Right.

In the previous *Hartz & Minds* issue, we defined ESG, explained its history, shared examples of challenges faced in each area, and emphasized that Corporate Social Responsibility (CSR) is rapidly becoming the norm. Why? Because it works.

Now we explore HOW companies do ESG right, with positive sustainable impact on planet, people, and profit. Vicious cycles of natural resource depletion, human inequity, and bad actors in all sectors shift to virtuous cycles that benefit the earth and its inhabitants, while netting long-term financial returns and growth.

As Corporate Hartz sees it, the key elements of success are <u>compulsively ethical governance practices</u>, <u>full transparency</u> internally and externally, <u>engaging company assets</u> (people, products, services, research, network), <u>focus on a need</u> (or needs) that the business is well positioned and well motivated to address, selecting the <u>right civic partners</u>, and capturing <u>true metrics for continuous improvement</u>.

Powerful data proves that responsible businesses generate stronger results:
Jerry Dodson, of Parnassus Investments, was an early believer in ethical investing (1984), including avoiding "sin stocks." He has $22.5B all under socially responsible management. One fund invests exclusively in public and private companies on the Fortune '100 Best Companies to Work For' list. Ergo, he has the #1 large cap growth stock fund over every long-term period from 1-10 years as tracked by Morningstar.

Dodson knows that the elements of a good workplace—from benefits like health insurance and childcare to cultural collegiality, advancement opportunities, and trust in management—are linked to meaningful qualities that drive up stock prices, such as talent retention and development, and increased productivity.

Fortune's Change the World List 2018 Criteria (for publicly traded firms):
1. *Measurable social impact*: reach, nature, and durability of social solutions.
2. *Business results*: the benefit ESG work brings to the company. Profitability and shareholder returns are valued over the company's public reputation.
3. *Degree of innovation*: including if other enterprises follow their example.
4. *Corporate integration*: how ESG is part of overall company strategy and how well that is communicated internally and externally.

Top 3: Reliance Jio (telco), Merck (pharma), Bank of America (financial services). Taking a shallow dive into #1 Reliance Jio, in India, in 2016, the UN said that Internet access is now a basic human right. Jio invested billions in a 4G network, free calls, 4¢/GB data, and is rolling out a super-low cost smart phone and fixed broadband. In 22 months, they gained 215 million subscribers, most of them new users. Competitors scrambled to meet Jio's offering, and the impact is broader participation in the digital economy – especially from farmers, entrepreneurs, and students. This is a true virtuous cycle of good for everyone.

Time will tell if this model is sustainable and replicable, but it is PROFITABLE!