



INVESTING

Is Ethical Investing Good for Returns?

By **Jacqueline Louie** - May 16, 2019



Sustainable, socially conscious, green, ethical and responsible investing is hot.

But when you're looking at socially responsible investing from a performance point-of-view, at the end of the day, this investment choice still must be competitive with other options.

"It's not an easy answer because, just like with financial results, you can look at so many variables," says University of Calgary Haskayne School of Business professor Irene Herremans, who teaches in the Sustainable Energy Development program.

Although the answers aren't easy, according to Herremans, in general there is far too much risk associated with companies that are not considering the environmental and social aspects of sustainability.

"Every study we have done shows a significant relationship between good corporate governance and good environmental performance," she says.

Herremans, who teaches an online course in sustainability reporting for the University of Waterloo, prefers not to use the term ‘responsible investing.’ As she explains, “What I consider responsible, you might not consider responsible.” Rather, she looks at a company’s environmental or social performance – “because the two concepts are quite different and the importance of each will vary depending on the industry.”

She emphasizes the importance of doing your homework, with the main source of information for investors being a company’s sustainability or corporate social responsibility report. Does the company have a clear policy statement and objectives regarding not only the financials but the environment and social aspects as well? What sort of internal controls do they have to achieve those?

Look at the corporate governance: Who is on the board? Is the board independent? Is it diversified? (For example, how many women are on a company’s board of directors?) According to Herremans, tone at the top, especially at the board level, is extremely important in order to push an environmental or social strategy through an organization. “There should be a good management team putting resources into it and taking it seriously.”

Commitment and capability are key. Does a company have the internal controls to carry a strategy through? “It’s got to be top down, but it also has to be bottom up. It’s the people in the field that are actually going to make the difference,” Herremans says. “You need to have that strong commitment throughout the organization.”

A company needs to have the right people in place, train them and make sure they have opportunities to grow and learn. It also needs to recognize employees for achieving the organization’s sustainability targets.

She adds that no company is perfect and that organizations should also be discussing their challenges: What things haven’t they addressed yet and what do they want to address in the future?

If you’re drawn to investing this way, identify what your values are first and then see if the company in question is reporting on those. Herremans also suggests talking with a knowledgeable financial advisor with reasonable fees who can help guide you – unless you have a strong background in finance and would really like doing this kind of research, which is very time consuming.

Just because a company addresses environmental and/or social factors does not mean that it will automatically be successful, she adds. “It must have a strategy for its sustainability direction, just as it does for its financial profits. However, there is pretty much general agreement, especially among the younger generation, that too much emphasis on profits is going to be detrimental in the long run. “

Finally, she points to a publication by the American Institute of Certified Public Accountants which states: “With the total return on the S&P ESG (Environment Social and Governance) Index exceeding that of the S&P 500 Index by more than 2.5% in 2016, investors and companies acknowledge that taking sustainability matters into account is not only the right thing to do, but often yields higher returns.”



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