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Getting Sustainable Environmental Performance from Public Companies

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We understand why many ESG investors focus on the "E". Protection of the environment is critical for today and especially for tomorrow. That focus on 'tomorrow' is why we use the term "sustainability", and sustainability starts at the top level of each company and needs to be embodied deeply in its culture. This need for a broad and deep integration of environmental stewardship in a company explains why looking at a few pieces of data, such as the emissions from its factories, is like determining the competence of a driver by how many parking tickets they've had.

Truly understanding a company's future environmental performance requires more than looking at a few numbers. Most people will readily acknowledge that a **well-governed company** is much more likely to improve its environmental performance over time. Just as the driver of a vehicle needs to be assessed to understand the quality of the driving, the behavior of a company needs to be assessed to understand the quality of the sustainability. Automotive insurance companies increasingly understand this need to understand actual driving behavior. That's why they are increasingly offering customers discounts if they will allow a device from the insurance company to be installed in their vehicle. The device monitors the actual driving behavior and provides the insurance company a much better understanding of the quality of the driver. Environmentalists and ESG investors should want equivalent data about the actual behavior of companies.

Insight comes from looking below the surface

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It's About Much More than Checking the Box

So, what is the best way to determine if the governance of the company will help improve sustainability? Most rating firms have a list the factors to check when collecting data about a company and call it 'research' when it's merely a check-the-box process. This exercise does not determine whether the entity actually adheres to good practices. Understanding behavior shines a light on the true quality of corporate governance. Good corporate governance is based on honesty and transparency and should be assessed not only through the company itself (i.e., board of directors, CEO, employees and shareholders), but also through the company's stakeholder relationships. These relationships include its customers, suppliers, competitors and the community in which it operates. Measuring good governance for sustainability needs to evaluate how the company interacts with all stakeholders. Conversely, the traditional research process to ESG investing is basically a form of negative screening. This check-the-box approach asks yes or no questions that will elicit a checked box or not. Positive screening means evaluating a company for claims that it adheres to best practices, and then digging deeper to see if the company truly is in compliance.

Objectively, governance is more than just the structure, rules, and regulations of the company. It is important to ascertain if the company actually adheres to these factors. More importantly it is about the values of the company and how it interacts with all its stakeholders. **It is about researching behavior.** This deeper and more insightful level of research is required to identify those companies that are most likely to endure over time. In other words, those that are truly sustainable.