Viewpoint: A new approach to environmental, social and governance policies is needed before it's too late

August 21 2023, by Daniel Tsai and Peer Zumbansen

Credit: AI-generated image (disclaimer)

This summer has proven how destructive climate change can be. We have been plagued by harrowing images of Maui, Hawaii, in ashes, news about wildfires spreading smoke across Canada and the United States and record-breaking heat waves worldwide.

It's clear we are facing a crisis on a planetary scale, requiring immediate political, social and economic action.

Corporations and governments have rushed to declare their commitment to environmental, social and governance (ESG) principles in response to the climate crisis. One of the issues with ESG is how difficult it is for investors, consumers and the public to assess how effectively companies have implemented it.

In addition, the lack of government leadership and the fragmentation of the ESG landscape has created uncertainty about its future. Many firms don't know if they should lead by example or wait to follow the pack.

Several large investors and corporations in the U.S.—most notably BlackRock—have recently become targets of the "anti-woke" movement, adding further uncertainty and hesitancy to committing to ESG.

The public debate around ESG, stakeholder governance, sustainability and responsible investment continues to gain momentum in the midst of all this.

In response, McGill University's CIBC Office of Sustainable Finance hosted academics and experts from 11 countries to confront the issues of ESG, climate change governance and democratic politics. The resulting impact paper proposes several policy recommendations for governments and corporations to work together to transform ESG standards into practice.

Increased transparency and accountability

Despite recurring financial crises and staggering socio-economic inequality, corporations find themselves conflicted by the need to maximize profits with ESG. But profit can still coexist alongside a significant business and investment shift towards sustainability.

A fully transparent and publicly available ESG and sustainability index for financial institutions and corporations would improve transparency, accountability and address the demand for ESG.

If large public corporations were required to report universal ESG metrics, it would lead to healthy competition among corporations to go above and beyond the minimum index requirements. This would allow investors and consumers to see how companies are actually implementing ESG policies, leading to increased transparency.

Meaningful disclosure will ultimately lead to a transformation of a company's buying, production, selling and investing practices.

Corporations and influential asset managers—such as BlackRock, State Street or Vanguard—must address stakeholder interests in ESG by changing their governance and investment practices in relation to their position of global power and influence.

A public index would provide a reference point for public and private behavior to effectively address the causes of disastrous climate change. It would go beyond empty social media posts and corporate website statements by exposing companies' shortcomings in across-the-board implementation of ESG policies.

Increased transparency would also help prevent companies from greenwashing by boosting their ESG ratings before quarterly or semiannual public disclosures.

In addition, a shared public commitment would not kill profits, as some have argued. Instead, it can mobilize people to think differently about gains, growth and what it means to run a successful business.

This forward momentum can lead to the integration of sustainability officers, who play a key role in ensuring effective ESG implementation, into businesses and organizations.

Incentivizing green investment

Another recommendation is for governments worldwide to offer incentives for green and purpose-driven investments, as Canada has done with green tax credits that were unveiled in the 2023 budget.

But these tax credits need to go further. For example, the government could provide tax credits to the oil, gas and mining sectors for investing in renewable energies. The government could also allow investors to deduct related corporate losses against their personal income.

That will help spur economic growth, investment and development in beneficial industries and technologies, as we have seen with the rise of the electric vehicle industry.

The goal should be to encourage corporations to better integrate sustainable practices within their business models and create targeted investment that favors socially responsible investment. That way, governments can use their tax systems to support technologies and business models that address climate change.

The bigger picture

Governments need to take a longer view on the development of sustainability policies and push back against short-term criticism. One way world governments can do this is by publicly endorsing ESG initiatives. Government officials should also do more to promote ESG.

Governments can also help make the financial sector sustainable by providing favorable loans and financing for greener investment portfolios.

Governments, central banks and banking regulators can create regulations that require financial institutions to implement sustainability into their underwriting policies. This would involve placing higher interest costs on loans with poor ESG outcomes to encourage industries to invest in better ESG.

By setting transparent standards for ESG accountability, requiring corporations to participate in sustainability indexes and standards and offering economic incentives through tax reform, governments can have a transformative effect on businesses through ESG. But it requires effective leadership.

Provided by The Conversation

Citation: Viewpoint: A new approach to environmental, social and governance policies is needed before it's too late (2023, August 21) retrieved 29 April 2024 from https://phys.org/news/2023-08-viewpoint-approach-environmental-social-policies.html